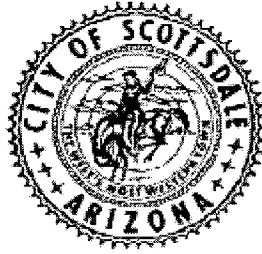


Approved at 4-21-2008 Audit Committee Meeting



**CITY OF SCOTTSDALE
AUDIT COMMITTEE
Kiva Conference Room
3939 N. Drinkwater Blvd
Scottsdale, AZ 85251
MARCH 27, 2008**

PRESENT: Jim Lane, Committee Chairman (arrived 2:00 p.m.)
Wayne Ecton, Committee Member
Ron McCullagh, Committee Member

STAFF: Cheryl Dreska, City Auditor
Kyla Anderson, Audit Associate
Joyce Gilbride, Assistant City Auditor
Richard Chess, Accounting & Tax Audit Director
Lisa Gurtler, Assistant City Auditor
Judy Melton, Neighborhood Resources
Valarie Vadala, Cultural Council
Jim Green, Cultural Council
Dave Meinhart, Transportation Planning & Transit Director
Mary O'Connor, Transportation General Manager
Ben Moriarity, Planning & Development Services
Dan VandenHam, Planning & Development Services
Paula Novacek, General Accounting, Accounting Manager
Sue Landreth, One Stop Shop
Scott McCarty, Financial Services
Susan English, Audit Associate

CALL TO ORDER/ROLL CALL

Committee Member McCullagh called the Audit Committee meeting to order at 1:34 p.m.
Roll call was taken confirming the presence of the Committee Members.

MINUTES - Approval of February 11, 2008 Committee Meeting Minutes

Committee Member Ecton made a motion to approve the February 11, 2008, minutes.
Committee Member McCullagh seconded the motion. The minutes were approved by a
unanimous vote of two (2) to zero (0).

GENERAL BUSINESS

Agenda Item 1 Discussion on draft report - Cash Handling Report No. 0705

Audit Associate Kyla Anderson informed the Committee four sites were randomly chosen to conduct unannounced cash handling audits. If the location had petty cash, it was included as part of the audit. Most of the findings were minor and were corrected immediately following each audit, thus giving reasonable assurance that City staff comply with cash handling policies and procedures.

There were two interrelated findings classified as high risk, which are found on page 5 of the report in the Action Plan. Staff at the One Stop Shop accepts checks for amounts greater than the total due, and processes a refund to the customer without a waiting period to ensure that the check clears. In addition, the clearing account used by One Stop Shop staff to post overpayments and refunds is out of balance by almost \$20,000.

Ms. Anderson stated One Stop Shop indicated the reason they accept checks for amounts greater than the total due is to facilitate customer service. In the future they will no longer be accepting checks that are greater than 20% over the actual fees, and they are going to institute a waiting period between when they accept the checks and when the checks are refunded.

Committee Member Ecton said in years past he heard complaints from developers regarding unknown fee amounts, and indicated he believes this practice was most likely implemented to resolve this issue. He asked if there has been a reconciliation to resolve the \$20,000 discrepancy. Ms. Anderson indicated reconciliation has been completed, and this \$20,000 was an amount that had not been refunded to a company. Accounting & Tax Audit Director Richard Chess stated the discrepancy was one transaction that has since been refunded. Committee Member Ecton asked if this account will now be reconciled monthly, and Ms. Anderson stated that it would.

Committee Member McCullagh asked why a 20% cap was placed on potential overpayments if refunds for any surplus amounts are not going to be issued until after the check has cleared. Mr. Chess said staff wants to keep refund amounts to a minimum. The new process will allow One Stop Shop to contact Financial Services to verify whether checks have cleared before issuing a refund.

Committee Member Ecton stated he is concerned regarding the overall number of discoveries in the report, and said it indicates that people who are handling cash are not being very diligent about it. Mr. Chess stated the City is currently in the process of obtaining a nationally certified cash handling accreditation from the Association of Public Treasurers. They provide training geared toward national standards of cash handling, and over 400 staff members have been identified to receive this training over the next several months. Mr. Chess stated this training and accreditation will assure cash handling is performed in a uniform manner throughout the City. Committee Member Ecton asked how the necessary training will be tracked throughout the City. Mr. Chess stated each position within the City required to handle cash has been identified, and any staff member hired or transferred to that position will be required to go through the training.

Committee Member McCullagh asked how much this training will cost per employee, and expressed concern regarding the time requirements. He stated the certification will not mean anything if the auditors find that the books do not balance, and suggested a memo to the departments outlining cash handling procedures might be sufficient. Mr. Chess stated although the exact cost has not been calculated, the cost is minimal and mainly consists of employee time. Committee Members Ecton and McCullagh suggested Financial Services General Manager Craig Clifford review this training and accreditation process.

Agenda Item 2 Update on the Status of action items from the Cab Connection Audit (Report No. 0611); potential discussion

Transportation General Manager Mary O'Connor stated a report has been provided to the City Auditor's office outlining the status of the recommendations from the report issued on May 7, 2007. Three items are still in the process of being completed.

Action Item No. 1, the mission statement and program parameter information, has been provided to the Transportation Commission and must be taken to City Council for a formal resolution.

Action Plan Item No. 7 is currently pending. There is a process in place to limit enrollment in the program to five-year increments, requiring participants to renew their application or be removed from the program after that period expires. Program materials will be mailed to new participants beginning April 1st, and they will be made aware of the new five-year criteria. Ms. O'Connor stated beginning June 1, 2008, all current participants will be reviewed and brought up-to-date with regard to the five-year renewal requirement.

Transportation Planning & Transit Director Dave Meinhart said this particular item will be rolled out over a fairly lengthy period of time because there are roughly 900 participants who have been in the program more than five years. Most of the identification cards will be updated through the senior centers, and in discussing the issue with staff, they indicated it would be a challenge processing all participants in a short period of time.

Committee Member McCullagh asked if this program issues vouchers, and Mr. Meinhart indicated it is a taxi voucher program. Committee Member Ecton clarified this program includes both ADA and seniors, and while there is no reason to not renew seniors, some ADA participants may no longer qualify. Ms. O'Connor stated seniors make up a significant portion of program users.

Ms. Dreska indicated Chairman Lane asked for an update on this item, and she will arrange to meet with him to discuss it.

Agenda Item 3 Presentation on the proposed Interim Audit Plan covering March through June 2008 submitted by the City Auditor for review and recommendation of the Audit Committee; potential discussion and action

Ms. Dreska stated general managers and assistant City managers have been updated regarding the five proposed audits. 3,120 hours will be available between April 1st and June 30th, with an allocation of 25% for admin, training, personal time, and vacation, leaving approximately, 2,500 actual hours of audit time.

Ms. Dreska suggested beginning the Audit of Management of Assets Controlled by the Fire Department first. Chief McDonald, who also asked for help with developing procedures, requested this audit. Approximately 450 hours have been allocated for this audit.

The Workers' Compensation Insurance and Transitional Duty Audit would require approximately 400 hours. This audit will verify compliance and evaluate the control environment for use of these funds, and the use of transitional duty for employees with work-related injuries.

The hours required for the Collection of Development and Permit Fees Audit has been increased after discussion with the Planning and Development Department, due to the time required to become acclimated with the system used to collect those fees. The scope of this audit will be limited to FY 06/07 and FY 07/08.

The WestWorld Basin Management Fund was going to be included in the WestWorld Audit; however, there are also concerns with the TPC Basin Management Fund and the Sanctuary. Audit staff is proposing one audit to encompass all three funds. Committee Member McCullagh stated this is an important audit due to questions about fees at the TPC.

Ms. Dreska stated the last audit concerns follow-up issues identified in the Code Enforcement Audit. Community & Neighborhood Resources Interim General Manager Raun Keagy has not expressed concern regarding conducting this follow-up, indicating the newly established procedures are in place.

Committee Member McCullagh asked if these proposals are priorities for completion, and Ms. Dreska stated they are not. These are new audits to be completed by the end of the quarter. Committee Member McCullagh asked how these projects fit in with what is already in progress. Ms. Dreska indicated there are 285 hours to complete audits already in process.

Ms. Dreska said she feels this is a reasonable audit plan for the final quarter of the fiscal year.

Agenda Item 4 Update by the City Auditor on status of current projects

The Asset Forfeiture Audit is out for comment, after which time it will be brought back to the Audit Committee for discussion. The Mall Section of the Cultural Council Compliance Audit has been delivered for review, and the final section of that has been drafted and is ready for delivery to the Cultural Council.

Agenda Item 5 Presentation of results on the initial inquiry into the Real Estate Acquisition Process; possible discussion

Assistant City Auditor Lisa Gurtler gave a PowerPoint presentation outlining the City's real estate acquisition process. Based on the findings, Ms. Gurtler stated the City Auditor's office does not currently recommend an audit of this process because the processes are not in writing, and there are no centralized administrative regulations to

use as criteria to establish an audit. A possible option would be to complete a fact-finding report to address certain real estate acquisitions.

City Auditor Cheryl Dreska stated the two most important points to note are that involvement is at the executive management level until a decision is made to pursue an acquisition, at which time it is brought before the City Council. In addition, the only thing that could possibly be audited is compliance with State Statutes and *The Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970*.

Chairman Lane stated there are no real compliance issues to audit, and any fact-finding would simply be an evaluation of management decisions. He asked what the financial staff and City Attorney staff look for in reviewing financing options and contracts. Ms. Dreska indicated they review these items with regard to form, not content or direction.

Committee Member McCullagh said the facts of past transactions such as Hualapai could be reviewed. Committee Member Ecton stated since that particular transaction is currently in court he would not support interfering with that process.

Committee Member McCullagh asked for more information regarding *The Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970*. Ms. Gurtler indicated the City adopted that Act in 1971, and it deals with the condemnation process. It sets the amounts for how much the City pays for relocation benefits, and is primarily to protect people who occupy land that is condemned for public purposes.

Chairman Lane suggested this item be tabled, and be brought forward at a later date if necessary.

Agenda Item 6 Presentation of the Fiscal Year 2008/09 proposed budget for the Office of the City Auditor; potential discussion

Committee Member McCullagh stated he did not feel this was the appropriate place for a budget presentation, and indicated it should be taken to the Budget Committee like any other budget item.

Chairman Lane stated that in the past there has been some preview by the Audit Committee of the City Auditor's office budget. Ms. Dreska indicated in the past it has been presented to the Audit Committee as a courtesy. Chairman Lane stated since no decision is being made, he feels discussion is appropriate.

Ms. Dreska briefly discussed the differences between the FY 07/08 adopted and forecasted budget. She indicated the vacancy positions are causing the almost \$60,000 difference between the forecast in personal services, and the \$71,000 difference in contractual services is due to anticipated rents on the building that ended up not being used. The rent and moving costs are being included in the proposed FY 08/09 budget in anticipation of the building becoming available in approximately August or September.

PUBLIC COMMENTS - None

COMMITTEE COMMENTS - None

ADJOURNMENT

With no further business to discuss, the Audit Committee meeting was adjourned at 2:30 p.m.